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FISCAL IMPACT STATEMENT

LS 6986

BILL NUMBER: SB 257

NOTE PREPARED: Feb 26, 2004

BILL AMENDED: Feb 19, 2004

SUBJECT: Correction of School Funding Formula.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR: Rep. Crawford

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that: (1) the at-risk index used in calculating 2003 school tuition support must be calculated using 1990 census data; (2) the complexity index used in calculating school tuition support in 2004 and thereafter must be calculated using education attainment data for persons who are at least 25 years of age; (3) the target pupil teacher ratio used to calculate prime time distributions must be calculated using multipliers that equal a number greater than one; (4) the target revenue per ADM of a charter school in its first year of operation is equal to the target revenue per ADM of the school corporation in which the charter school is located; and (5) a school corporation's share of the state appropriation for full day kindergarten is calculated using the total ADM of the participating schools.

The bill allows a school corporation to issue tax anticipation warrants against property tax collections that result from a shortfall appeal. It allows a school corporation that had insufficient data in 2003 to file a shortfall appeal to file the appeal in 2004 for taxes payable in 2005, and to issue tax anticipation warrants against the property tax collections.

The bill authorizes a school corporation to: (1) file an appeal to impose an additional levy to make up a shortfall in property tax collections in a fund other than the school general fund; and (2) increase the corporation's transportation fund levy by the amount by which the state has reduced its transportation distributions to the corporation. It provides that the increase in the transportation fund levy and the shortfall levy are not eligible for property tax replacement credits or homestead credits.

The bill extends the sunset date for issuance of school corporation bonds for retirement or severance liability from December 31, 2004, to December 31, 2006. It provides that a school corporation may not issue such bonds after December 31, 2004, unless the corporation submits to the department of local government finance before January 1, 2005, a proposal concerning the issuance of the bonds to implement solutions for the

corporation's retirement or severance liability. It also allows a school corporation to issue bonds for that purpose a second time if the first bond issue has been retired and the average annual debt service on the second bond issue does not exceed the average annual debt service on the first bond issue.

Effective Date: Upon passage; January 1, 2002 (retroactive); January 1, 2003 (retroactive); July 1, 2003. (retroactive).

Explanation of State Expenditures: *Summary:* The Department of Education is currently administering the school formula and the full-day kindergarten program in a manner consistent with the provisions of the bill, so the bill would have no fiscal impact.

Background: The bill changes the at-risk index used in calculating 2003 school tuition support to the 1990 Census data instead of the 2000 Census data. The school formula passed in 2001 used the 1990 Census data. The CY 2003 calendar year cap and FY 2003 and FY 2004 appropriation assumed the 1990 Census data would be used in the CY 2003 school formula calculations. The 2000 Census data does not have the education attainment data for persons who are at least 20 years of age. If the 2000 Census data was used, schools would receive \$23.0 M less in CY 2003, \$21.9 M less in CY 2004, and \$19.6 M less in CY 2005.

The bill specifies that the complexity index used in calculating school tuition support in 2004 and thereafter is to be calculated using education attainment data for persons who are at least 25 years of age instead of 20 years of age. The 2000 Census data does not have the education attainment data for persons who are at least 20 years of age. If the education attainment statistic is removed, then the reduction in funding to local schools is \$2.5 M for CY 2004 and \$11.2 M for CY 2005 (a \$47.2 M reduction in state aid and a \$36 M increase in property taxes).

The bill specifies that the target pupil-teacher ratio used to calculate prime time distributions is to be calculated using multipliers that equal a number greater than one. The complexity index is greater than 1 and the old at-risk index was less than 1 when used to determine a school target pupil-teacher ratio. Under current law all schools would have a target pupil-teacher ratio of 15:1. If the calculation is not changed, then schools would receive \$6.7 M more in funding to local schools for CY 2004 and \$13.6 M in CY 2005. If the increase causes the distribution to exceed the calendar year maximum, then schools' distributions would be reduced proportionately so as not to exceed the maximum.

The bill specifies that target revenue per ADM of a charter school in its first year of operation is equal to the target revenue per ADM of the school corporation in which the charter school is located. Under current law all charter schools would receive the foundation grant times the complexity index. If the foundation amount is used in calculating charter school revenue, then charter schools would receive \$2.7 M less in revenue in CY 2004 and \$3.1 M less in CY 2005.

The bill specifies that a school corporation's share of the state appropriation for full-day kindergarten is calculated using the total ADM of the participating schools. The budget bill used the total ADM of the state, so only a fraction of the appropriation could be distributed. If the total ADM was used, schools with full-day kindergarten programs would receive \$3.5 M less in funding annually.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill allows a school corporation that adopted a resolution between

December 31, 2002, and July 1, 2003, to transfer funds to the school's general fund to offset the reductions in state tuition support but failed to make the transfer, to have until July 1, 2005, to make the approved transfer.

2003 General Fund Shortfall Appeal: The number of schools that had a shortfall in property tax collections in the school general fund for 2003 is unknown and the number that failed to file a 2003 shortfall appeal is unknown. Due to the 2003 reassessment many schools did not receive property tax distributions until after the appeal date so they were unaware if an appeal was needed. One school had the potential of a shortfall appeal of about \$1.5M.

Shortfall Appeals in Other Funds: The number of schools that would file for an appeal for a shortfall in property tax collections in a fund other than the school general fund is unknown. The number of appeals would probably be minor. As an example, from CY 2001 to CY 2003 the average number of appeals per year was about 18 and the value of the appeals was \$800,000 annually.

Transportation Appeals: The total amount of the allowable appeals for the transportation fund levy to incorporate the elimination of state funding for regular, special education, and vocational education transportation would be about \$32.9 M. A school may appeal for the loss in state transportation revenue in one year or over several years, but the total amount of the appeals cannot exceed the amount the state distributed to the school for the period of June 30, 2003, to December 30, 2003.

The appeals are not eligible for Property Tax Replacement Credits or Homestead Credits.

Pension Bonds: The bill extends the deadline for issuing retirement or severance bonds from before December 30, 2004 to December 31, 2006. A school would have to submit a proposal concerning the *initial* issuance of retirement or severance liability bonds to the Department of Local Government Finance before January 1, 2005. The bill also allows a school corporation to issue bonds a second time (after December 31, 2005) if the amount of bonds the school corporation could have issued under this provision is greater than the amount permissible under current law *and* the prior bonds were issued before April 14, 2003 are retired. It is unknown how many additional schools might qualify under this extension of the deadline.

State Agencies Affected: Department of Education.

Local Agencies Affected: Local Schools.

Information Sources: Department of Education Databases and School Formula Simulations.

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